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# Financial Markets

Irving Trust

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Friday
(Noon)

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Release last Friday of the notes from the August 23 FOMC meeting cast a pall over the financial markets. As a result, when the money and capital markets reopened on Tuesday, rates rose across a broad spectrum of maturities. This market reaction was somewhat surprising in view of a survey of money market economists at major financial institutions that had revealed a general belief that the FOMC notes would indicate the Fed had not fundamentally altered its policies at the August meeting. So what was the bad news contained in the FOMC notes?

The news that seems to have had the strongest market impact is twofold, concerning both money supply and the economy. First, on money supply, the FOMC notes indicate that it was "apparently...(in) response to slower-than-expected growth in the money supply..." that interest rates fell off from their mid-August peaks. Subsequent discussion clarifies that the Fed itself did not change the pressure on bank reserve positions at the time that rates fell. On the economic front, the FOMC asserts that incoming economic data, particularly weak retail sales for June and July, contributed to the tailing off in rates. Furthermore, as the committee met, the economy was "continuing to expand quite rapidly." Prospects were for an..."economic recovery that would continue in the latter part of 1983 and in 1984, though at a more moderate pace..." Taken together these descriptions do not indicate a monetary authority on the verge of cutting rates. However, the FOMC report was not totally one-sided; it did contain some caveats about the possibility that recovery might not endure.

Looking at the Fed's interpretation of recent monetary data, the market likely became more displeased. The Fed's focus on money supply clearly referred to M2 and M3. Furthermore, the Fed indicated that some of the recent slowdown in the growth of these aggregates was probably of a technical nature and might be reversed. This would displease a market eager to rally because M1 has been looking weaker recently--indeed, at 4.6%, its June to September annual growth rate is way below the interim target of 7%. Instead, the Fed report referred to M1 almost in footnote fashion, giving M1 importance in its report only to the extent of saying the market had reacted to M1. (Reading between the lines, one reasonably concludes that this means overreacted to M1.)

Despite what economists may predict, market participants act on their own instincts. Therefore, despite all the above rationalization, we must remember that the FOMC report did dash the hopes of those who ignored the economists' analysis. Many market players simply could not believe that the coincidence of the August FOMC meeting and the simultaneous downturn in the effective Fed funds rate was not an overt policy move. Yet it wasn't. Now all eyes are on the Fed and, perhaps, less focused on M1. But don't be too disappointed that the August meeting didn't produce an easing in policy. While the Fed funds rate isn't at 9%, neither is it at 9 3/4%--where it seemed headed in mid-August. The Fed has clearly been less aggressive recently; it's stuck in a holding pattern.

Robert A. Brusca

# Irving Trust

# Market Yields

| | 10/14/83 (Noon) | Week Ago | Year Ago |
|---|---|---|---|
| **Prime Lending Rate at Irving Trust Company** | 11.00% | 11.00% | 12.00% |
| Effective since | 8/8/83 | | |
| **Discount Rate at Federal Reserve Bank** | 8.50 | 8.50 | 9.50 |
| **Federal Funds** | 9.25 | 9.38 | 9.25 |
| **Repurchase Agreements** | 9.13 | 9.30 | 9.00 |
| **U.S. Treasury Issues** | | | |
| **Bills** | | | |
| 3 months | 9.09 | 8.89 | 7.76 |
| 6 months | 9.51 | 9.29 | 8.28 |
| 1 year | 9.87 | 9.66 | 8.92 |
| **Coupons** | | | |
| 2 years | 10.65 | 10.40 | 9.90 |
| 4 years | 11.14 | 10.90 | 10.47 |
| 7 years | 11.55 | 11.28 | 10.63 |
| 10 years | 11.60 | 11.30 | 11.20 |
| **Long Bond** | 11.64 | 11.35 | 10.95 |
| **Negotiable Certificates of Deposit-Secondary Market** | | | |
| 1 month | 9.15 | 9.05 | 9.15 |
| 3 months | 9.20 | 9.15 | 9.25 |
| 6 months | 9.40 | 9.30 | 9.45 |
| 1 year | 9.80 | 9.80 | 9.60 |
| **Banker's Acceptances** | | | |
| 1 month | 9.15 | 9.05 | 9.05 |
| 3 months | 9.30 | 9.20 | 9.25 |
| 6 months | 9.45 | 9.35 | 9.40 |
| **Eurodollar Deposits** | | | |
| 1 month | 9.62 | 9.43 | 9.88 |
| 2 months | 9.69 | 9.43 | 10.00 |
| 3 months | 9.75 | 9.56 | 10.13 |
| **Commercial Paper - Prime Names** | | | |
| **Directly placed by:** | | | |
| **Finance Companies** | | | |
| 1 week | 9.27 | 9.14 | 9.14 |
| 1 month | 9.33 | 9.19 | 8.94 |
| 3 months | 9.34 | 9.21 | 9.07 |
| **Bank Holding Companies** | | | |
| 1 month | 9.19 | 8.81 | 8.04 |
| **Dealer Placed:** | | | |
| 3 months | 9.36 | 9.24 | 9.21 |
| **New AA Corporate Utility Bond** | 12.65 | 12.50 | 12.50 |
| **Tax Exempt** | | | |
| 6 month Project Notes | 5.35 | 5.20 | 4.25 |
| 1 year AAA Bond | 5.75 | 5.25 | 5.25 |
| 5 year AAA Bond | 7.00 | 6.70 | 6.40 |
| 20 year AAA Bond | 9.60 | 8.90 | 8.40 |

This information represents prevailing market yields.
**It should not be construed as an offering.**
All yields are on the offered side of the market.

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